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INTERNATIONAL SHOE COMPANY

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1953

ANNUAL REPORT

42ND ANNUAL REPORT ▸ ▸

Summary Description of the Business of the International Shoe Company and its Subsidiaries

PRODUCTION:

The Company manufactures a complete line of men's, women's and children's shoes.

The Company also manufactures for its own use in the manufacture of shoes, upper leather, sole leather, rubber heels, rubber soles, cotton cloth for linings, chemicals, cements, leather welting and other items.

DISTRIBUTION AT WHOLESALE LEVEL:

Through its selling divisions, the Company distributes the shoes it produces throughout the United States and its possessions and to foreign countries where satisfactory trade relations can be carried on under existing government restrictions.

DISTRIBUTION AT RETAIL LEVEL:

At the retail level, by far the greater part of the Company's shoes is distributed through more than 30,000 independent retailers. A part goes through large and small chain organizations. Less than 5% of the Company's shoes are distributed through retail stores owned by the Company or its subsidiaries.

Through its subsidiary, Shoenterprise Corporation, the Company finances the setting up of independently owned and operated retail shoe outlets in locations where the Company's distribution is unsatisfactory. In a very few situations, where necessary to protect distribution, this subsidiary acquires majority ownership of key retail shoe outlets.

SUBSIDIARIES:

This consolidated report includes the affairs and accounts of its subsidiary corporations, all of which are engaged in businesses directly related to that of the Company. Four of these subsidiaries are of significant size:

> **FLORSHEIM SHOE COMPANY** which manufactures and distributes Florsheim shoes for men and women.
>
> **SHOENTERPRISE CORPORATION**
>
> **TWELFTH-DELMAR REALTY COMPANY** which owns and operates the Central Terminal Building in St. Louis, Missouri with International Shoe Company as the principal tenant.
>
> **BURK BROTHERS** which operates one tannery in Philadelphia, Pennsylvania.

INTERNATIONAL SHOE COMPANY

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THE ANNUAL MEETING OF STOCKHOLDERS

WILL BE HELD ON FEBRUARY 23, 1954.

Directors

CARL E. BRUECKMANN
HAROLD M. FLORSHEIM
IRVING S. FLORSHEIM
BYRON A. GRAY
CLEMENCE L. HEIN
PAUL B. JAMISON
ANDREW W. JOHNSON
J. LEE JOHNSON
LEE C. McKINLEY
ROBERT O. MONNIG
HAROLD F. OYAAS
OLIVER F. PETERS
JAMES T. PETTUS
EDGAR E. RAND
HENRY H. RAND
REZIN H. RICHARDS
RICHARD O. RUMER
ALBERT V. WHEELER

Officers

BYRON A. GRAY
Chairman of the Board

EDGAR E. RAND
President

ANDREW W. JOHNSON
Vice-President and Treasurer

OLIVER F. PETERS
Vice-President

HENRY H. RAND
Vice-President

ROBERT O. MONNIG
Vice-President and Comptroller

J. LEE JOHNSON
Vice-President

REZIN H. RICHARDS
Vice-President

CARL E. BRUECKMANN
Secretary and Asst. Treasurer

WARREN P. METZ
Asst. Secretary

WILLIAM J. BANKS
Asst. Comptroller

General Offices

1509 Washington Ave.
St. Louis (3) Mo.

Transfer Agents

Manufacturers Trust Company
New York, N. Y.

Mercantile Trust Company
St. Louis, Mo.

Registrars

Guaranty Trust Company
New York, N. Y.

St. Louis Union Trust Company
St. Louis, Mo.

Highlights of the year 1953

	Fiscal Years Ended November 30			
	1953	1952	Increase or (Decrease)	Per Cent
Net Sales	$251,027,699	$217,041,923	$33,985,776	16
Civilian	247,124,486	210,580,006	36,544,480	17
Military	3,903,213	6,461,917	(2,558,704)	(40)
Income before Federal Income Taxes	19,508,358	17,116,375	2,391,983	14
Federal Taxes on Income	9,687,105	8,859,003	828,102	9
*Net Income	9,930,720	8,286,892	1,643,828	20
Percent of Net Sales	4.0	3.8		
Per Share	2.93	2.44	.49	20
Total Dividends Paid	8,138,647	8,095,970	42,677	
Dividends per Share	2.40	2.40		
Income Retained	1,792,073	190,922	1,601,151	
Current Assets	$125,951,387	$117,667,106	$ 8,284,281	7
Current Liabilities	39,608,412	25,574,677	14,033,735	55
Working Capital	86,342,975	92,092,429	(5,749,454)	(6)
Working Capital Ratio	3.2	4.6		
Employees' Notes Receivable	$ 3,434,698	$ 3,170,196	$ 314,502	10
Customers' Loans Receivable	5,156,806	3,537,073	1,619,733	46
Long-Term Debt	34,957,352	30,000,000	4,957,352	17
Net Physical Properties	$ 33,217,216	$ 23,009,747	$10,207,469	44
Maintenance and Repairs	4,184,790	4,229,331	(44,541)	(1)
Depreciation	2,388,538	1,988,917	399,621	20
Accumulated Depreciation	38,479,777	35,380,035	3,099,742	9
Production in Pairs	55,556,682	53,341,232	2,215,450	4
Civilian	55,039,790	52,323,946	2,715,844	5
Military	516,892	1,017,286	(500,394)	(49)

*After adjustment for minority interests.

Detailed financial statements are presented beginning on Page 10 of this report.

ANNUAL MESSAGE

. . . to our Stockholders from the Chairman of the Board and the President

You will find our Company results for the fiscal year 1953 highlighted on the opposite page. Here are brief comments on these and other significant Company matters. As you page through this report, you will find more complete information on these and other subjects.

As you read this report, please keep in mind the acquisition by our Company on March 10 of The Florsheim Shoe Company. Their results from that date are included in this consolidated report. Unless otherwise stated, the figures, information and comments are inclusive of this and other corporate subsidiaries.

Consolidated net sales showed an increase of 16% over the prior year. This sales gain resulted principally from the inclusion of The Florsheim Shoe Company for about nine months.

Consolidated net income before taxes was 14% greater than in the preceding year. After taxes, net income was 20% greater than in 1952.

Per share net income amounted to $2.93 compared with $2.44 in 1952.

Dividends were $2.40 per share, same as in the previous year. The 171st consecutive dividend on our Company's stock was paid on January 1, 1954, completing 41 years of uninterrupted payments.

After showing large year-to-year percentage increases at the start of the selling for spring 1953, new order receipts slackened. Nevertheless the spring season saw the Company reach new record levels in order receipts and in the production and shipment of civilian shoes. The fall season was a period of correction for the industry as well as our Company. The quick pace of the spring season changed to one of sluggishness in the fall.

It appears that the industry overproduced by about 4% during the twelve-month period roughly outlined by the last half of 1952 and the first half of 1953. Correction which took place during the last half of 1953 should go far toward bringing down to normal the stocks of shoes in the hands of retailers and manufacturers.

The acquisition of The Florsheim Shoe Company was the outstanding event of 1953 for our Company. Holding a unique position of prominence and prestige in the field of men's and women's fine shoes, Florsheim shoes round out our Company's coverage of the footwear needs of the consuming public. The name Florsheim has no equal in the shoe world in general recognition and acceptance. Along with the name, we acquired sound manufacturing, merchandising and distribution—but of greatest value, a competent management group.

The Bryan, Texas plant for the processing of rubber composition heeling and soling materials, plans for which were described in last year's report, will be in operation in the early months of 1954. It appears that the amount invested when the plant is in operation will be in line with the original estimate of $3,500,000. A profitable stage of operation should be reached before the end of our fiscal 1954.

Burk Bros., acquired in November 1952, has been operating smoothly and profitably since it attained an efficient production level at midyear.

Shoenterprise Corporation continues as a vital part of our Company's program of developing and improving the retail distribution of its products.

An agreement has been reached between our Company and George O. Jenkins with Salamander Aktiengesellschaft of Kornwestheim (Bei Stuttgart) Germany, for the manufacture and distribution of leather fibreboards developed by Salamander.

Our principal agreements with employee representative groups were completed late in the year. Under the agreements our Company will pay the full costs of accident and health benefits and of a program of hospital and surgical benefits. A third week of vacation is provided for employees with 15 years of service. The agreements provide for no change in wage rates except for percentage increases in line with similar increases in the cost-of-living index. The agreements run for two years with no reopening provision. It is anticipated that agreements with other employee representative groups will be completed under similar terms.

Hide and leather prices have fluctuated in a range moderately above the basis of our shoe prices resulting in a fairly steady squeeze on our margins throughout the year. More recently the hide market has receded to a point more nearly in line with our shoe prices and we are hopeful that this will continue.

The long-term loan of $30 million completed on October 9, 1952 has proved most advantageous. With approximately $21 million placed in the Florsheim acquisition and more than $10 million in Shoenterprise and related activities, the entire long-term loan has been placed in investments of a permanent nature. Short-term borrowing provides for seasonal needs growing principally out of dating in connection with seasonal shipments to retailers.

During the past year our Company stepped up its training programs in vital sections of management. Special training courses were inaugurated, and will be carried on regularly, for production superintendents and foremen, for sales trainees and to provide refresher courses for older salesmen, and for the independent merchants and their staffs in the matter of serving the consumer well in their retail stores.

It is evident that production of all kinds has not only caught up with, but shows signs of running ahead of, demand in the American economy. Some hard goods industries which operated for more than 10 years in a sellers' market are now experiencing the sharp competition which prevails in a buyers' market. Competition among producers for the consumer dollar can be expected to increase in intensity as we move into 1954.

The shoe industry, along with the textile and other soft goods industries, came to the end of its sellers' market about 5 years ago and these industries have adjusted to the conditions of a buyers' market. For this reason the declining tendency in the national economy widely expected during 1954 should have only a mild effect on the shoe industry. We expect the industry in 1954 to produce at a rate not far from the 500 million pair level of the recent past. Looking into the more distant future, the steady increase in population of about 1½% per annum will be reflected in a corresponding increase in shoe production. Your management is confident that our Company will continue to enjoy its full share of the business.

1953 was another good year for our Company. Despite the problems which are always present in a highly competitive industry, our Company has a notable record of consistent performance year after year.

Your management is appreciative of the continued confidence of those who invest their money in our Company and is grateful to all of the men and women in our working force for their continued loyalty in the year just closed.

FOR THE BOARD OF DIRECTORS

Byron A Gray — Edgar E. Rand

January 4, 1954 — CHAIRMAN OF THE BOARD — PRESIDENT

48.0¢

For materials, supplies and expenses

42.6¢

For employees' pay and benefits

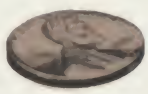
4.4¢

For payments ordered by Government
(TAXES)

3.3¢

For dividends to stockholders

1.0¢



For tools wearing out
(DEPRECIATION)

.7¢

Remainder used in the business

HOW OUR 1953 SALES DOLLAR WAS USED . . .

For materials, supplies and expenses	$120,663,264	48.0%
For employees' pay and benefits	106,977,821	42.6
For tools wearing out (depreciation)	2,388,538	1.0
For payments ordered by Government (taxes—excluding social security)	11,067,356	4.4
For dividends to stockholders	8,138,647	3.3
Remainder used in the business	1,792,073	.7
	$251,027,699	100.0%

Sales

Sales of $251,027,699 for the year exceeded the prior year by almost $34 million. The increase resulted principally from the acquisition of The Florsheim Shoe Company. The sales of this company for the nine months during which their results were included accounted for about $29.5 million. As you will see, our Company, exclusive of Florsheim, showed an increase of close to $4.5 million.

Military sales for the year amounted to $3.9 million compared with $6.5 million for the prior year, a decrease of $2.6 million. Our Company's increase on civilian shoes was approximately $37 million, and exclusive of Florsheim, approximately $7 million.

The present procurement program of the government indicates that military business will remain an unimportant item for the industry and for our Company.

Shoe retailers had a good year in 1953. Information now at hand indicates a small dollar increase for the year and we believe a similar increase in pairage.

Income

Net income of $9,930,720 compared with $8,286,892 for 1952, an increase of $1,643,828. Per share, this amounted to $2.93 compared with $2.44 in 1952.

Income before federal income taxes amounted to $19,508,358 in 1953 compared with $17,116,375 in 1952, an increase of $2,391,983.

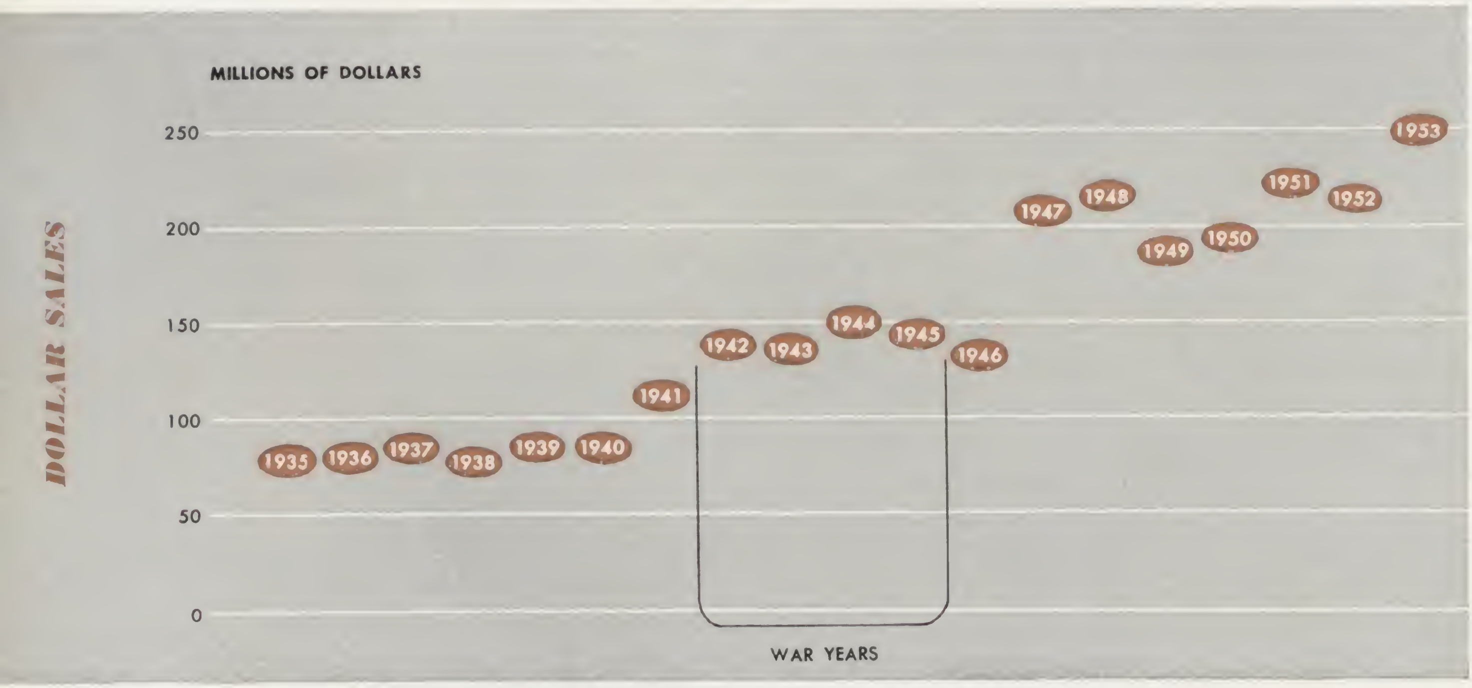
The increase was somewhat less than expected earlier due partly to the lessening rate of activity in the second half of the year, but principally to a steady squeeze on margins which resulted from raw material markets higher than the basis of our selling prices.

The development of a position as a net exporter in hides versus a long history of our country as a net importer is the most acceptable explanation of the rather unexpected behavior of the hide and leather markets.

Dividends

The Company paid a dividend of $2.40 per share in 1953. This is at a rate of 60¢ per share quarterly, the rate paid regularly since April 1, 1950.

The January 1, 1954 dividend was the 171st dividend paid on our Company stock, completing 41 years of uninterrupted payments.



Production

The production of our shoe factories amounted to 55.6 million pairs. This is approximately 11% of all shoes produced in the United States. This includes the production of the Florsheim factories from date of acquisition amounting to 2 million pairs of shoes.

In addition, our 29 other plants produced leather, cut soles, rubber heels and soles, cotton textiles and many other articles in the large quantities shown on the production summary on page 16, for use by us in the manufacture of shoes.

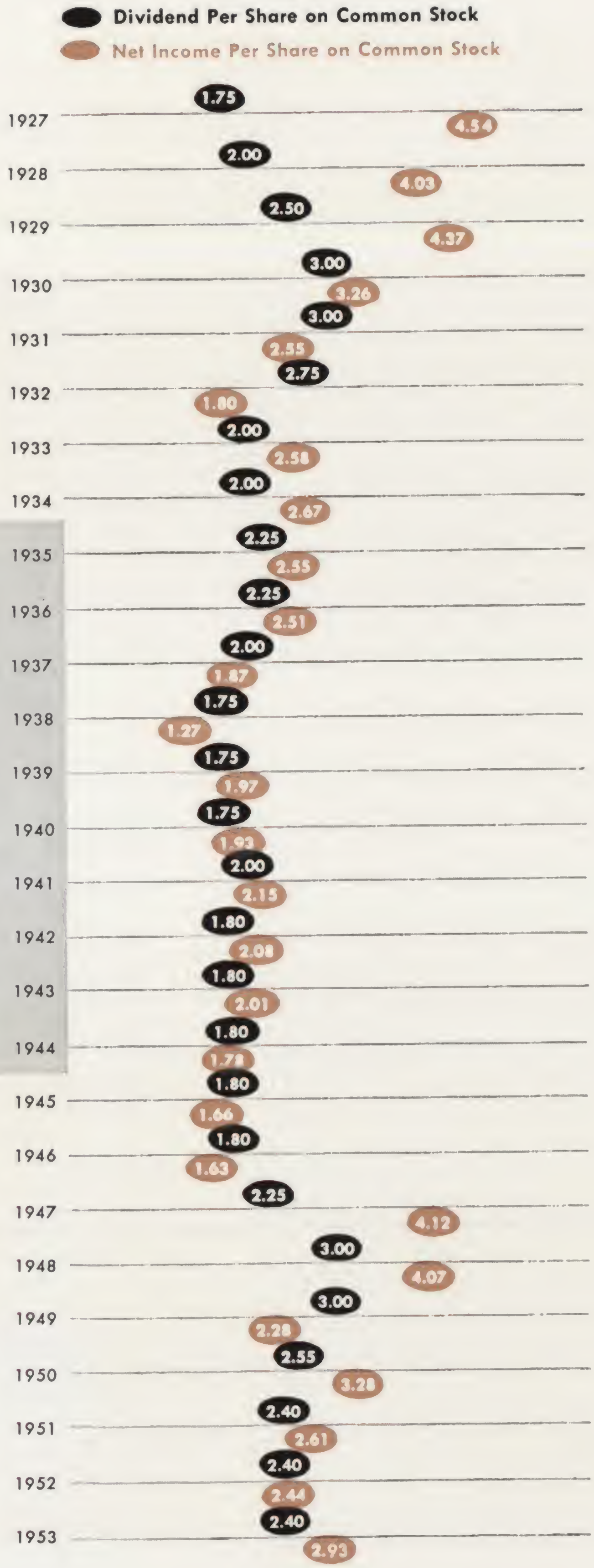
Based on information available at this time, it appears that the shoe industry produced 505 million pairs of shoes in our fiscal year 1953, about 1% more than in the prior year. This 505 million pairs was made up of 267 million pairs in the first half and 238 million pairs in the second half of the year. For twelve-month periods ended in March, April, May and June, the industry showed an annual volume of 520 million pairs. Consumer usage of shoes is estimated at 500 million pairs. This indicated an overproduction in the periods mentioned of 4%. During the last half of 1953 the industry ran at a relatively slow rate of production, being 7% less than the prior year. This undoubtedly accomplished much of the correction necessary to bring inventories into line.

Costs and Prices

The fiscal year 1953 was the first year in a number of years in which very little change was made in the price of shoes. We increased our prices on December 1, 1952, which was the opening day of our year and adjusted them slightly downward in April when pricing the fall lines. Deliveries during the entire first quarter, however, were at prices set in October 1952, approximately 3% less than the December 1 prices. These 1953 prices were related to low points in the raw material markets and to an expectation of a declining trend in these markets.

DIVIDENDS and EARNINGS

COMPANY PAYS ITS 171st DIVIDEND



As mentioned elsewhere, the hide and leather markets were firm to higher most of the year and this caused a squeeze on our margins rather steadily through the year.

Wage and salary rates under the principal employee contracts remained unchanged at the close of 1953. Our costs, however, will be affected by the increased benefit provisions in these contracts under which the Company undertakes to pay the full cost of accident and health, as well as hospital and surgical, insurance. The addition of a third week of vacation for employees with fifteen years of service also will be reflected in our costs.

The constant increase in the variety of shoes demanded by, and placed before, the consumer is an important factor of cost for both the shoe manufacturer and shoe retailer. The consumer has been provided with an ever-increasing choice of shapes, patterns, colors and other characteristics which make for an almost infinite variety of shoes. Recognition by the manufacturer and the retailer must be given to the cost of this important element.

The manufacturer has the cost of more lasts, dies and patterns . . . more kinds and colors of upper and bottom materials . . . more equipment . . . more managerial time and attention . . . in relation to the production and wholesale distribution of a given number of pairs of shoes . . . so also the retailer, who must have larger and larger stocks to satisfy the demands, desires, whims and caprices of the many different men, women and children with feet in hundreds of sizes to be fitted . . . in order to accomplish a given number of sales. Variety means a slower rate of turnover, an increase in markdowns and additional capital, in relation to the sales dollar, for both retailer and manufacturer–wholesaler.

The point has been made that the retailer needs a larger markup in order to perform his function well. It may be said that the same is indicated for the manufacturer. The apparent solution is an increase in the price of shoes to compensate for this element of cost resulting from the ever-increasing variety of shoes.

WORKING CAPITAL

	November 30 1953	1952
CURRENT ASSETS		
Cash and Government Securities	$ 11,526,978	$ 23,168,828
Accounts Receivable	41,027,942	34,471,764
Inventories	72,821,674	59,050,797
Prepaid Expenses	574,793	975,717
Total	**$125,951,387**	**$117,667,106**
CURRENT LIABILITIES		
Notes Payable	$ 14,500,490	$ 2,491,666
Accounts Payable	13,113,235	12,842,272
Employees' Balances	457,626	310,298
Federal Income Tax	10,682,372	9,030,159
Tax Withheld	854,689	900,282
Total	**$ 39,608,412**	**$ 25,574,677**
Net Working Capital	**$ 86,342,975**	**$ 92,092,429**
Ratio	**3.2**	**4.6**

During the year 1953 $5.7 millions of net working capital were placed in fixed investments.

The 1952 annual report pointed out that the long-term borrowing completed October 9, 1952, which resulted in extreme liquidity at the close of last year, could be expected to move into fixed investments.

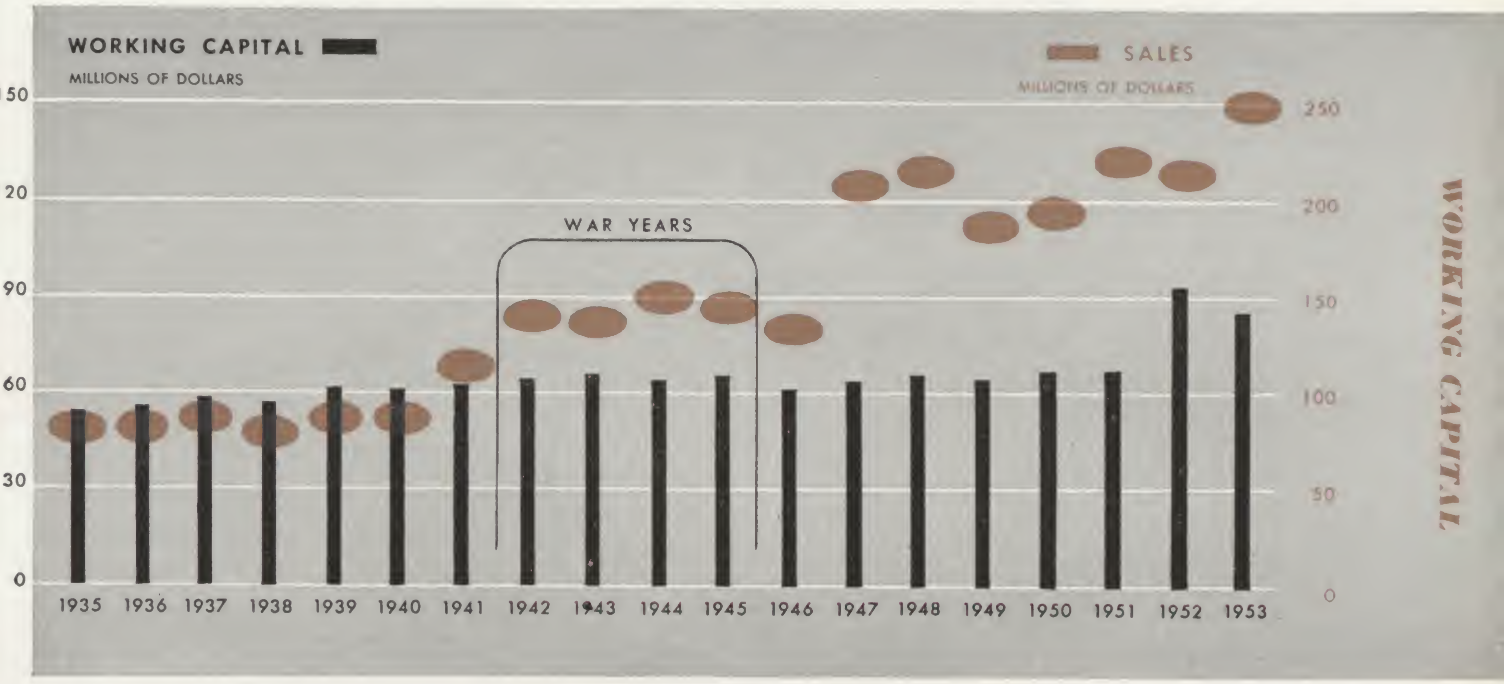
Increases in accounts receivable, inventories and other items reflect for the most part the increase in the Company's annual volume of business with sales for 1953 exceeding $250 million. These increases resulted principally from the Florsheim acquisition.

Taxes

During the year the excess profits tax which was scheduled to expire on June 30, 1953 was extended to December 31, 1953. This was the only significant change in the federal income tax laws affecting corporation income taxes.

The present administration appears determined to bring down the cost of government and to follow with reductions in tax rates. Nevertheless, any expectation of a corporation income tax rate much below 50% is not realistic at this time.

This much improvement exists. The great barrier to increased net income which the top rate of 82% imposed has been removed. Business management will strive for increased profits when it can retain about 50% instead of 18% of such higher earnings.



INTERNATIONAL
SHOE
COMPANY

CONSOLIDATED FINANCIAL POSITION

	November 30, 1953	1952
CURRENT ASSETS:		
Cash	$ 10,124,270	$ 22,999,376
United States Government securities, at cost and accrued interest	1,402,708	169,452
Receivables—trade and sundry, less allowance for cash discounts and doubtful receivables	41,027,942	34,471,764
Inventories (Note 2)	72,821,674	59,050,797
Prepaid expenses, insurance premiums, taxes, and sundry	574,793	975,717
Total Current Assets	125,951,387	117,667,106
LESS—CURRENT LIABILITIES:		
Notes payable to banks	14,000,000	—
Long-term debt, current maturities (Note 4)	500,490	2,491,666
Accounts payable and accrued expenses	13,113,235	12,842,272
Employees' income tax withheld from payroll	854,689	900,282
Employees' balances	457,626	310,298
Federal taxes on income, estimated	10,682,372	9,030,159
Total Current Liabilities	39,608,412	25,574,677
Net Working Capital	86,342,975	92,092,429
OTHER ASSETS:		
Federal income taxes recoverable under Section 22 (d) (6) I. R. C.	676,077	676,077
Employees' notes receivable for stock, secured by 116,040 shares and 103,036 shares, respectively, of parent company's common stock	3,484,698	3,170,196
Customers' secured loans receivable, deferred maturities	5,156,806	3,537,073
Investment in stocks of other companies, at cost, and sundry	1,571,906	684,503
Parent company's own common stock, held for resale to employees, 9,197 shares and 7,247 shares at cost	362,794	281,607
Deferred charges	72,243	76,900
	11,324,524	8,426,356
PHYSICAL PROPERTIES—based on appraisal April 30, 1925, plus subsequent additions at cost, less accumulated depreciation (Note 3)	33,217,216	23,009,747
Excess of investment over equity in subsidiaries (net)	9,770	(79,506)
	130,894,485	123,449,026
DEDUCT:		
Long-term debt (Note 4)		
3½% promissory notes payable in installments due October 1, 1962 to 1982	30,000,000	30,000,000
2¾% promissory notes payable in semi-annual installments to January 15, 1961, less current maturities	2,657,353	—
Mortgage notes payable to banks maturing $8,333 monthly and balance due November 1, 1956, less current maturities	2,299,999	—
Minority interests in subsidiaries	900,316	214,369
	35,857,668	30,214,369
Stockholders' Equity	$ 95,036,817	$ 93,234,657
REPRESENTED BY:		
Common stock without nominal or par value. Authorized 4,000,000 shares; issued 3,400,000 shares	$ 51,000,000	$ 51,000,000
Capital in excess of stated amount	1,333,102	1,323,015
Retained earnings (Note 5)	42,703,715	40,911,642
	$ 95,036,817	$ 93,234,657

See accompanying notes to financial statements.

INTERNATIONAL
SHOE
COMPANY

CONSOLIDATED INCOME

Years Ended November 30,	1953	1952
Sales and Other Income:		
Net Sales	$251,027,699	$217,041,923
Income from rentals and services	235,984	321,175
Interest and other income	542,624	281,079
	251,806,307	217,644,177
Deductions:		
Cost of sales, selling, general and administrative expenses (Note 7)	230,138,916	199,758,538
Interest and amortization of expense on long-term debt	1,194,275	231,242
Other interest and sundry charges	964,758	538,022
	232,297,949	200,527,802
Income before Federal taxes on income	19,508,358	17,116,375
Federal taxes on income, estimated (excess profits tax, ($175,000) 1952 only)	9,687,105	8,859,003
	9,821,253	8,257,372
Proportion of net loss of subsidiaries applicable to minority interests	109,467	29,520
NET INCOME FOR YEAR APPLICABLE TO CAPITAL STOCK OF COMPANY	$ 9,930,720	$ 8,286,892

CONSOLIDATED RETAINED EARNINGS

Years Ended November 30,	1953	1952
Balance at beginning of year	$ 40,911,642	$ 40,720,720
Net income for year applicable to capital stock of company	9,930,720	8,286,892
	50,842,362	49,007,612
Dividends on common stock—$2.40 per share each year	8,138,647	8,095,970
Balance at end of year	$ 42,703,715	$ 40,911,642

See accompanying notes to financial statements.

INTERNATIONAL
SHOE
COMPANY

NOTES TO FINANCIAL STATEMENTS

(1) PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements incorporate the accounts of the Company and its several subsidiaries (all domestic). The Company has adopted the policy of including in consolidation all subsidiary companies in which the percentage of ownership is 51% or more. The operating results from date of acquisition of subsidiaries acquired during the year are included in the statement of consolidated income.

In so far as practicable, all inter-company accounts, transactions, and unrealized profit in inventories have been eliminated in consolidation.

(2) INVENTORIES:

The inventories at November 30, 1953 are compared with those of November 30, 1952 in the following summary:

	1953	1952
Finished shoes	$32,258,891	$26,483,391
Shoes in process	5,064,034	4,286,867
Hides and leather	13,909,526	9,310,855
Miscellaneous materials and supplies on hand and in process	21,589,223	18,969,684
	$72,821,674	$59,050,797

The major part of the inventories is based on physical inventories taken at November 30, 1953 while the remainder is based on similar physical counts taken at various dates during the year. Approximately 50% of the inventories at November 30, 1953 are priced at cost on the last-in, first-out method while the remainder, including all miscellaneous materials and supplies, are priced at the lower of cost (first-in, first-out) or November 30, 1953 replacement market.

(3) PHYSICAL PROPERTIES:

Physical properties at November 30, 1953 are compared with those at November 30, 1952 in the following summary:

	1953	1952
Land and water rights	$ 3,421,306	$ 2,933,693
Buildings and structures	37,268,993	28,413,999
Machinery and equipment	31,006,693	27,042,089
Lasts, patterns, and dies	1	1
	71,696,993	58,389,782
Less accumulated depreciation	38,479,777	35,380,035
	$33,217,216	$23,009,747

Properties of Twelfth-Delmar Realty Company with a net balance November 30, 1953 of $2,904,278 are pledged as collateral on mortgage notes payable to banks.

(4) LONG-TERM DEBT:

The 3½% promissory notes are payable in annual installments of $1,125,000 on each October 1 from 1962 to 1981 and the remainder is payable on October 1, 1982. The agreement pertaining to the notes allows certain prepayment privileges.

The 2¾% promissory notes represent an obligation of The Florsheim Shoe Company payable in semi-annual installments of $204,412 on each January 15 and July 15 to January 15, 1961.

The mortgage notes payable to banks represent an obligation of Twelfth-Delmar Realty Company payable in monthly installments of $8,333 each to October 1, 1956 with the balance due on November 1, 1956.

(5) RETAINED EARNINGS RESTRICTIONS:

The agreement relating to the 3½% promissory notes provides that cash dividends on or acquisitions of capital stock may be paid only from consolidated net income subsequent to November 30, 1951 plus $12,250,000. Of the retained earnings at November 30, 1953, $28,470,720 are restricted under the foregoing provisions; there is a further restriction of $362,794 as a result of the reacquisition of parent company's own common stock. In addition the promissory note agreement provides that no payment for such purposes may be made unless consolidated net working capital shall be at least $50,000,000.

(6) RENEGOTIATION:

During the current and preceding years, the parent company made sales to the United States Government which sales are subject to renegotiation. In the opinion of the management refunds, if any, will not be material and no provision has been made therefor in the financial statements.

(7) CERTAIN CHARGES TO OPERATIONS:

Amounts charged to operations for the years 1953 and 1952 include the following costs and expenses:

	1953	1952
Depreciation of physical properties	$2,388,538	$1,988,917
Maintenance and repairs	4,184,790	4,229,331
Taxes, other than income taxes	4,285,366	3,540,625
Rentals of real property	2,210,321	910,068
Rentals of shoe machinery	3,691,439	3,421,664

INTERNATIONAL SHOE COMPANY

10-YEAR COMPARISON OF CONSOLIDATED FINANCIAL POSITION

	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944
CURRENT ASSETS:										
Cash	$ 10,124,270	$ 22,999,376	$ 5,991,683	$ 4,342,111	$ 5,844,981	$ 4,637,060	$10,498,601	$ 6,901,687	$13,248,377	$13,093,067
U. S. Government securities	1,402,708	169,452	156,666	151,666	151,666	151,666	2,393,487	6,042,386	19,604,783	20,380,048
Receivables—trade and sundry—net	41,027,942	34,471,764	26,210,939	36,126,748	28,891,357	33,787,010	27,109,511	16,893,662	14,846,250	18,948,743
Inventories	72,821,674	59,050,797	58,673,856	47,763,533	47,040,351	51,689,958	43,415,863	42,122,071	29,932,878	28,429,963
Prepaid expenses	574,793	975,717	842,262	741,768	675,217	696,008	525,802	543,159	412,608	375,546
Refunds of Federal taxes on income from carry back	—	—	—	—	—	—	—	2,211,001	—	—
Total current assets	$125,951,387	$117,667,106	$91,875,406	$89,125,826	$82,603,572	$90,961,702	$83,943,264	$74,713,966	$78,044,896	$81,227,367
LESS—CURRENT LIABILITIES:										
Mortgage notes payable—current maturities	$ 500,490	$ 2,491,666	$ 100,000	$ 100,000	$ 100,000	$ 100,000	—	—	—	—
Notes payable to banks	14,000,000	—	—	—	3,000,000	5,000,000	—	—	—	—
Accounts payable and accrued expenses	13,113,235	12,842,272	9,347,708	12,227,226	8,860,138	10,573,858	$ 9,664,675	$10,690,654	$ 5,581,144	$ 7,111,390
Employees' income tax withheld from payroll	854,689	900,282	606,339	585,951	364,355	407,989	744,646	554,479	429,416	403,081
Stockholders' and employees' balances	457,626	310,298	252,394	471,289	416,275	546,903	396,913	271,193	342,034	454,153
Federal taxes on income, estimated	10,682,372	9,030,159	13,508,261	8,255,215	4,742,743	8,861,537	8,958,894	1,699,676	6,015,736	8,756,661
Total current liabilities	$ 39,608,412	$ 25,574,677	$23,814,702	$21,639,681	$17,483,511	$25,490,287	$19,765,128	$13,216,002	$12,368,330	$16,725,285
Net working capital	$ 86,342,975	$ 92,092,429	$68,060,704	$67,486,145	$65,120,061	$65,471,415	$64,178,136	$61,497,964	$65,676,566	$64,502,082
OTHER ASSETS:										
Federal income taxes recoverable under section 22 (d) (6) I. R. C.	$ 676,077	$ 676,077	$ 676,077	$ 676,077	$ 676,077	$ 3,088,123	$ 2,674,617	$ 2,468,200	$ 1,145,457	$ 601,780
Employees' notes receivable for stock, secured	3,484,698	3,170,196	2,025,138	2,361,947	2,295,450	2,400,501	2,482,764	—	—	—
Customers' secured loans receivable, deferred maturities	5,156,806	3,537,073	1,948,247	1,099,820	—	—	—	—	—	—
Investments in stocks of other companies, etc. (less reserve)	1,571,906	684,503	847,820	840,513	895,877	826,590	725,405	548,074	364,313	518,745
Company's own common stock	362,794	281,607	349,894	30,039	—	—	—	243,134	243,134	243,134
Estimated post-war tax refund	—	—	—	—	—	—	—	—	—	1,645,000
Deferred charges	72,243	76,900	—	—	—	—	—	—	—	—
	$ 11,324,524	$ 8,426,356	$ 5,847,176	$ 5,008,396	$ 3,867,404	$ 6,315,214	$ 5,882,786	$ 3,259,408	$ 1,752,904	$ 3,008,659
PHYSICAL PROPERTIES:										
Land and water rights	$ 3,421,306	$ 2,933,693	$ 2,809,600	$ 2,814,968	$ 2,857,747	$ 2,860,405	$ 1,874,317	$ 1,898,353	$ 2,010,802	$ 2,032,265
Buildings and structures	37,268,993	28,413,999	26,978,208	27,075,648	27,953,286	27,461,470	24,005,375	22,393,483	21,720,657	21,645,056
Machinery and equipment	31,006,693	27,042,089	25,724,571	24,721,002	24,942,467	23,889,984	22,754,390	20,994,245	19,935,998	19,505,854
Lasts, patterns, and dies	1	1	1	1	1	1	1	1	1	1
	$ 71,696,993	$ 58,389,782	$55,512,380	$54,611,619	$55,753,501	$54,211,860	$48,634,083	$45,286,082	$43,667,458	$43,183,176
Less depreciation	38,479,777	35,380,035	33,270,533	32,019,045	31,922,539	30,434,840	29,684,558	29,365,305	28,667,051	27,762,979
	$ 33,217,216	$ 23,009,747	$22,241,847	$22,592,574	$23,830,962	$23,777,020	$18,949,525	$15,920,777	$15,000,407	$15,420,197
Excess of investment over equity in subsidiaries (net)	9,770	(79,506)	(270,129)	—	—	—	—	—	—	—
Total assets less current liabilities	$130,894,485	$123,449,026	$95,879,598	$95,087,115	$92,818,427	$95,563,649	$89,010,447	$80,678,149	$82,429,877	$82,930,938
DEDUCT:										
Long-term debt	$ 34,957,352	$ 30,000,000	$ 2,591,666	$ 2,691,667	$ 2,891,667	$ 2,991,667	—	—	—	—
Minority interests in subsidiary companies	900,316	214,369	212,923	—	—	—	—	—	—	—
Reserves:										
For excess cost of replacing lifo inventories	—	—	—	—	—	65,000	$ 150,000	$ 210,000	$ 310,000	$ 370,000
For insurance	—	—	—	—	—	608,669	608,669	713,789	806,984	806,622
For contingencies	—	—	—	—	—	—	—	—	1,000,000	1,000,000
	$ 35,857,668	$ 30,214,369	$ 2,804,589	$ 2,691,667	$ 2,891,667	$ 3,665,336	$ 758,669	$ 923,789	$ 2,116,984	$ 2,176,622
Stockholders' equity	$ 95,036,817	$ 93,234,657	$93,075,009	$92,395,448	$89,926,760	$91,898,313	$88,251,778	$79,754,360	$80,312,893	$80,754,316
REPRESENTED BY:										
Common stock	$ 51,000,000	$ 51,000,000	$51,000,000	$51,000,000	$51,000,000	$51,000,000	$51,000,000	$50,250,000	$50,250,000	$50,250,000
Capital in excess of stated amount	1,333,102	1,323,015	1,354,289	1,354,289	1,354,289	1,354,289	1,354,289	—	—	—
Retained earnings	42,703,715	40,911,642	40,720,720	40,041,159	37,572,471	39,544,024	35,897,489	29,504,360	30,062,893	30,504,316
	$ 95,036,817	$ 93,234,657	$93,075,009	$92,395,448	$89,926,760	$91,898,313	$88,251,778	$79,754,360	$80,312,893	$80,754,316

INTERNATIONAL SHOE COMPANY

42-YEAR REVIEW OF CONSOLIDATED INCOME, FEDERAL TAXES ON INCOME AND DIVIDENDS

Fiscal Year	Net Sales	Net Income before Federal Taxes	Federal Taxes on Income (a)	Net Income	Dividends Declared on Preferred Stock	Net Income Available for Common Stock	Net Income per Share on Common Stock (b)	Dividend Rate per Share on Common Stock	Shares of Outstanding Preferred Stock (c)	Shares of Outstanding Common Stock (c)
1912	$ 20,990,643	$ 1,955,130	$ 19,308	$ 1,935,822	$ 577,500	$ 1,358,322	$10.65		82,500	127,500(j)
1913	26,005,299	1,834,468	18,762	1,815,706	653,875	1,161,831	9.11	$7.00	94,250	127,500
1914	24,114,860	1,523,619	14,721	1,508,898	659,750	849,148	6.66	7.00	94,250	127,500
1915	24,439,107	1,822,938	18,049	1,804,889	659,750	1,145,139	8.98	6.00	94,250	127,500
1916	33,574,914	4,189,409(d)	79,152	4,110,257(d)	659,750	3,450,507	27.06	7.00	94,250	127,500
1917	45,037,293	5,353,980	1,270,000	4,083,980	697,125	3,386,855	26.56	7.00	100,000	127,500
1918	50,810,947	4,397,880	1,585,000	2,812,880	700,000	2,112,880	16.57	8.00	100,000	127,500
1919	61,247,782	6,917,224	2,250,000	4,667,224	700,000	3,967,224	31.11	7.00	100,000	127,500
1920	75,617,895	8,914,491	2,644,257	6,270,234	846,250	5,423,984	42.54	8.00	122,500	127,500
1921	73,839,153	5,025,441	859,247	4,166,194	1,128,190	3,038,004	3.33	1.68	177,643	911,279(k)
1922	97,366,403	11,739,821	1,502,864	10,236,956	1,414,945	8,822,011	9.60	2.00	179,142	918,006
1923	109,922,738	11,703,988	1,405,347	10,298,641	1,421,753	8,876,888	9.64	2.75	178,000	920,000
1924	110,240,651	15,123,263	2,062,468	13,060,795	1,424,000	11,636,795	12.64	4.00	178,000	920,000
1925	114,265,987	14,594,410	1,872,965	12,721,444	1,424,000	11,297,444	12.27	5.00	100,000	920,000
1926	116,980,835	15,279,118	2,061,542	13,217,576	600,000	12,617,576	13.71	6.00	100,000	920,000
1927	124,306,333	20,478,632	2,780,174	17,698,457	600,000	17,098,457	4.54	1.75	100,000	3,760,000(l)
1928	122,694,532	17,973,205	2,211,429	15,761,775	600,000	15,161,775	4.03	2.00	100,000	3,760,000
1929	132,110,129	19,207,966	2,176,532	17,031,434	600,000	16,431,434	4.37	2.50	100,000	3,760,000
1930	102,393,618	14,597,599	1,723,495	12,874,104	600,000	12,274,104	3.26	3.00	100,000	3,760,000
1931	86,802,293	11,088,135	1,343,319	9,744,815	600,000	9,144,815	2.55	3.00	100,000	3,510,000
1932	65,488,662	7,729,920	1,082,392	6,647,527	600,000	6,047,527	1.80	2.75	100,000	3,350,000
1933	70,343,128	10,764,075	1,673,508	9,090,566	425,810	8,664,756	2.58	2.00		3,350,000
1934	77,168,682	10,866,266	1,899,241	8,967,024		8,967,024	2.67	2.00		3,350,000
1935	83,073,459	10,031,599	1,489,637	8,541,962		8,541,962	2.55	2.25		3,350,000
1936	84,856,709	9,771,444	1,354,517	8,416,926		8,416,926	2.51	2.25		3,350,000
1937	88,278,810	7,394,495	1,127,503	6,266,992		6,266,992	1.87	2.00		3,350,000
1938	80,828,631	4,890,762	622,475	4,268,286		4,268,286	1.27	1.75		3,350,000
1939	89,325,446	8,061,896(e)	1,473,687	6,588,209(e)		6,588,209	1.97	1.75		3,350,000
1940	89,257,329	8,122,117	1,648,505	6,473,611		6,473,611	1.93	1.75		3,350,000
1941	116,530,243	9,691,079	2,484,042	7,207,037		7,207,037	2.15	2.00		3,350,000
1942	144,256,388	16,634,160(f)	9,639,207	6,994,952(f)		6,994,952	2.08	1.80		3,350,000
1943	143,014,252	18,699,794(g)	11,953,882	6,745,912(g)		6,745,912	2.01	1.80		3,350,000
1944	156,869,226	13,236,780	7,257,281	5,979,499		5,979,499	1.78	1.80		3,350,000
1945	149,088,414	10,749,859	5,178,203	5,571,656		5,571,656	1.66	1.80		3,350,000
1946	135,381,520	3,311,780(h)	2,142,767(i)	5,454,547(h)		5,454,547	1.63	1.80		3,350,000
1947	213,325,147	22,616,876	8,600,476	14,016,400		14,016,400	4.12	2.25		3,400,000
1948	220,145,821	22,045,707	8,199,173	13,846,534		13,846,534	4.07	3.00		3,400,000
1949	190,352,585	12,457,127	4,710,611	7,746,516		7,746,516	2.28	3.00		3,400,000
1950	199,009,491	19,385,773	8,248,225	11,137,548		11,137,548	3.28	2.55		3,400,000
1951	225,070,342	20,170,326	11,459,352	8,837,336(m)		8,837,336	2.61	2.40		3,400,000
1952	217,041,923	17,116,375	8,859,003	8,286,892(m)		8,286,892	2.44	2.40		3,400,000
1953	251,027,699	19,508,358	9,687,105	9,930,720(m)		9,930,720	2.93	2.40		3,400,000

NOTE:
(a) Federal taxes on income include excess profits taxes in years where applicable. (b) Based on shares of common stock outstanding at close of fiscal year. (c) Number of shares outstanding at close of fiscal year; common stock includes, where applicable, Company's own common stock held for re-sale carried as an asset. (d) Before provision of $1,000,000 for trade conditions affecting raw materials market; reserve transferred to surplus during fiscal year 1921. (e) After providing $550,000 for contingencies. (f) After providing $450,000 for contingencies. (g) After providing $222,447 for contingencies. (Net amount of payment to U. S. Government a/c renegotiation.) (h) After including transfer of $1,000,000 reserved for contingencies previously provided by charges to profit and to loss. (i) Net amount of income tax refundable due to carry back provisions of the Internal Revenue Code. (j) Par value of $100 per share. (k) After giving effect to exchange of each share of $100 par value Common Stock (Mo. Corporation) for 6 shares no par value Common Stock (Del. Corp.). (l) After stock split-up on the basis of 4 shares for one. (m) After adjustment for minority interest.

TO THE BOARD OF DIRECTORS,

INTERNATIONAL SHOE COMPANY

ACCOUNTANTS' REPORT

We have examined the statement of consolidated financial position of International Shoe Company and subsidiaries as of November 30, 1953 and the related statements of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statement of consolidated financial position and statements of consolidated income and retained earnings present fairly the financial position of International Shoe Company and subsidiaries at November 30, 1953 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

St. Louis, Missouri
January 4, 1954

PRODUCTION SUMMARY

Our Company's principal production is shoes.
During 1953, we produced:

SHOES

For Men and Boys	Pairs	17,012,266	*Consisting almost entirely of this type of production our sales amounted to* $251,027,699
For Women and Girls	Pairs	16,749,605	
For Children	Pairs	20,336,554	
House Slippers	Pairs	1,458,257	
	Total	55,556,682	

However, our Company carries on a vast amount of other production of things used in the manufacture of shoes. During 1953 we produced:

MATERIALS FOR SHOE UPPERS

Leather for Uppers (including Linings) from Cattle Hides and Lambskins (Calfskins and Goatskins tanned under contract not included)	Feet	70,765,844	*This type of production had an aggregate value of* $ 22,988,716
Cloth for Linings from Cotton	Yards	5,502,992	

MATERIALS FOR SHOE BOTTOMS

Soles, of Leather (some shoes take several soles)	Pairs	56,295,179	*This type of production had an aggregate value of* $ 37,975,993
Soles, of Rubber	Pairs	13,596,816	
Counters, of Leather	Pairs	23,042,120	
Heels, of Leather (some shoes take both leather and rubber heels)	Pairs	9,128,481	
Heels, of Rubber	Pairs	23,291,327	
Leather, for soles from Cattle Hides	Pounds	10,605,725	
	Feet	17,685,863	
Welting, Leather	Yards	7,951,803	

OTHER MATERIALS AND SUPPLIES USED IN SHOES AND FOR FASTENING, MAKING AND PACKAGING SHOES

Boxes, Box Toes, Cartons, Cements, Chemicals, Patterns, and others	Not Itemized	*This type of production had an aggregate value of* $ 9,467,168

Total Value of Production—Shoes and Materials and Supplies $321,459,576

Processing upper leather, Bolivar, Tennessee tannery.

Moulding rubber outsoles, Hannibal, Missouri.

Cutting leather outsoles, St. James, Missouri.

Mixing leather finish at chemical plant in St. Louis.

Processing sole leather, Frankford, Pennsylvania tannery.

Some of the products we produce for use in the manufacture of our shoes

Preparing welting for shipment, Ste. Genevieve, Missouri.

THE FLORSHEIM SHOE COMPANY

On March 10, our Company acquired 94% of all of the capital stock of the Florsheim Shoe Company. Since that date additional stock has been acquired and at the close of our fiscal year, less than 2000 shares were in the hands of other stockholders. This means that our Company's ownership is 99.7% complete.

The Florsheim stock was purchased by our Company at $30 per share for the Class A stock and $15 per share for the Class B stock. Except for voting rights, the Class B stock is convertible into Class A stock on the basis of two shares of B for one share of A. In other words, it has a position in all respects (except voting rights) of ½ share of A stock.

The Florsheim Company had outstanding 415,732 shares of Class A stock and 559,400 shares of Class B stock. Since for all practical purposes the B stock is equal to 279,700 shares of A stock, it simplifies matters to combine the two into the equivalent of 695,432 shares of A stock. Thus at $30 per share the company was valued at $20,862,960.

At the date of acquisition on March 10, the book value of the Class A stock was $24.45 per share. However, it had been determined in advance of the consummation of the transaction that there were tangible values behind the Florsheim stock amounting to more than the $30 per share paid for it. This has been definitely confirmed since date of acquisition.

Since the name Florsheim has no equal in the shoe world in general recognition and acceptance, a considerable intangible value exists which is no doubt increased by the joining of the two companies.

Founded in 1892, Florsheim has long been one of the world's leading producers of fine men's shoes. In 1929, it added women's shoes to its lines and has 3,800 workers producing close to 2,500,000 pairs of men's and women's shoes annually at its five plants in Chicago and one in St. Louis.

The company distributes its shoes through some 5,000 independent stores and 90 retail outlets operated by subsidiaries.

No change was made nor is any contemplated in the management of The Florsheim Shoe Company. Irving Florsheim and Harold Florsheim remain as Chairman of the Board and President, respectively, and all other officers and directors continue. The Florsheim Shoe Company will continue to operate completely independently, except for management coordination. Irving Florsheim and Harold Florsheim are now directors of International Shoe Company and five International Shoe Company directors are also directors of The Florsheim Shoe Company.

Florsheim shoes round out our Company's coverage of the footwear needs of the consuming public. Florsheim Shoe Company and International Shoe Company operate in distinctive fields—their lines do not compete but are complementary.

Observations since acquisition fully confirm our earlier expectations that we acquired a sound business—manufacturing, merchandising and distribution—operated by a very competent management group.

DIRECTORS:

S. F. EAGAN
HAROLD M. FLORSHEIM*
IRVING S. FLORSHEIM*
G. P. FOLEY
BYRON A. GRAY*
EARL W. GRAY
R. A. HEIDER
J. LEE JOHNSON*
W. P. MAGEE
ROBERT O. MONNIG*
O. M. PICK
EDGAR E. RAND*
HENRY H. RAND*
C. W. SCHAAF
J. B. STANCLIFFE
J. W. WALLACE

OFFICERS:

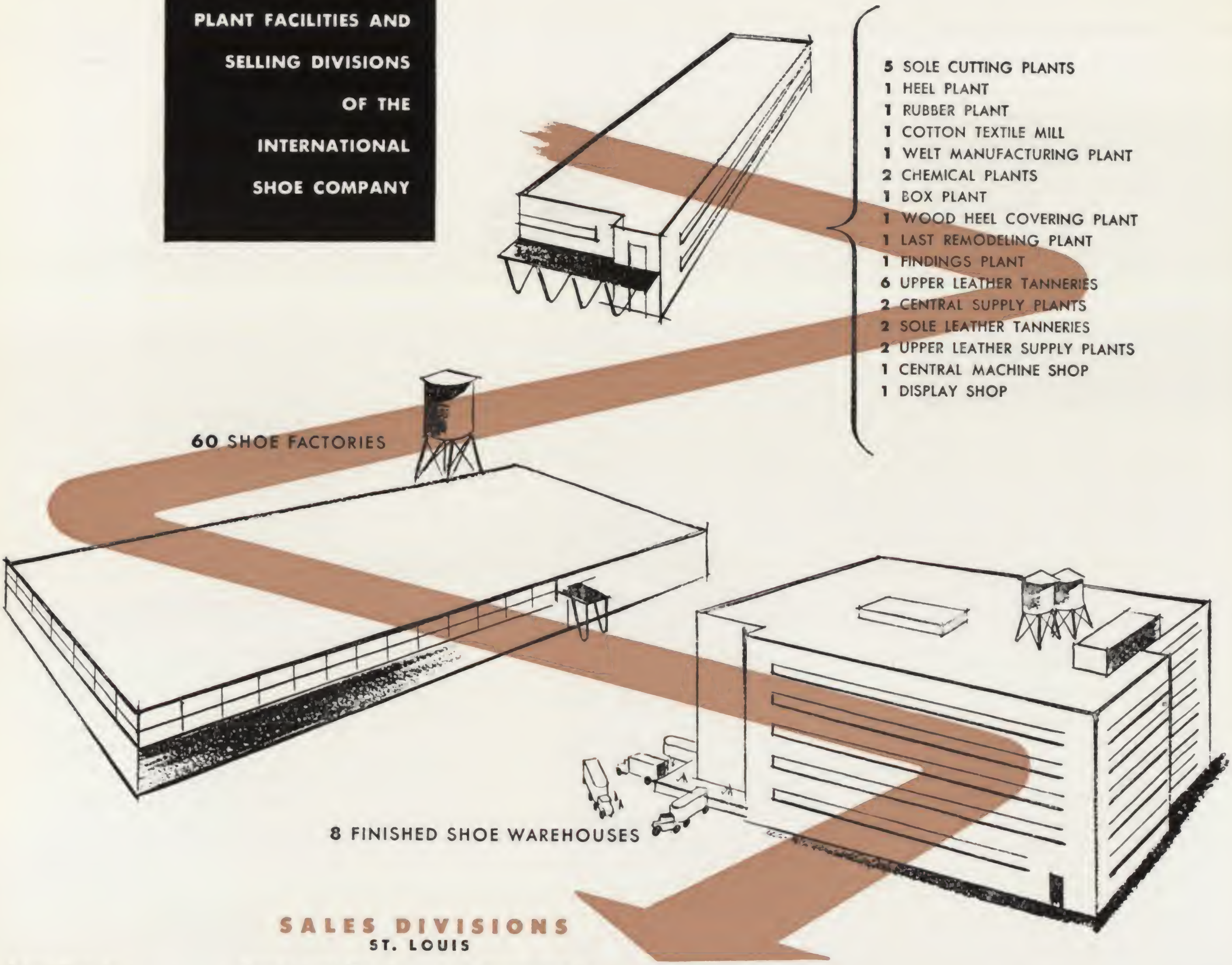
IRVING S. FLORSHEIM, *Chairman*
HAROLD M. FLORSHEIM, *President*
C. W. SCHAAF, *Vice-President & Secretary*
J. B. STANCLIFFE, *Vice-President*
J. W. WALLACE, *Treasurer*
S. F. EAGAN, *Assistant Vice-President*
O. M. PICK, *Assistant Vice-President*
M. F. MAHER, *Assistant Vice-President*
B. B. CLAYBURN, *Assistant Secretary*

*Also Directors of International Shoe Company

Headquarters building, 130 South Canal Street, Chicago

Typical Florsheim retail stores. (Left, Kansas City, Missouri. Right, New York City.)

THE PRINCIPAL PLANT FACILITIES AND SELLING DIVISIONS OF THE INTERNATIONAL SHOE COMPANY



SALES DIVISIONS

ST. LOUIS

Accent Shoe Co.
Conformal Footwear Co.
Continental Shoemakers
Dorothy Dodd Shoe Co.
Export
Friedman-Shelby
Hy-Test
Pennant Shoe Co.
Peters
Queen Quality Shoe Co.
Roberts, Johnson & Rand
Sentinel
Vitality Shoe Co.
Winthrop Shoe Co.

CHICAGO

Florsheim Shoe Co.
Great Northern Shoe Co.

MANCHESTER, N. H.

Hampshire Shoe Co.
Sundial Shoe Co.

LOCATION OF SHOE FACTORIES AND SUPPLY PLANTS

MISSOURI

Belle
Bland
Cape Girardeau
De Soto
Dexter
Eldon
El Dorado Springs
Fulton
Hamilton
Hannibal
Hermann
Houston
Jackson
Jefferson City
Kirksville
Marshall
Mexico
Perryville
Poplar Bluff
Richland
St. Clair
St. James
Ste. Genevieve
St. Louis
Salem
Sikeston
Sullivan
Sweet Springs
Vandalia
Washington
West Plains
Windsor

ILLINOIS

Anna
Belleville
Chester
Chicago
Evansville
Flora
Jerseyville
Mt. Vernon
Olney
Quincy
Springfield
Steeleville

ARKANSAS

Bald Knob
Batesville
Conway
Malvern
Russellville
Searcy

NEW HAMPSHIRE

Claremont
Manchester
Nashua
Newport

KENTUCKY

Hopkinsville
Paducah

LOCATION OF TANNERIES

South Wood River, Illinois
St. Louis, Missouri
Manchester, New Hampshire
Philadelphia, Pennsylvania
Bolivar, Tennessee
Marlinton, West Virginia

Plant Facilities

During the fiscal year 1953 six shoe factories were added through the acquisition of The Florsheim Shoe Company. One shoe factory was closed. This plant, at St. Charles, Missouri, had been in operation since 1906. The rapid growth of a large aircraft producer, and other plants of this type within the proximity of St. Charles, drew off the workers to such an extent that the continued manufacture of shoes in this community became economically unsound. The St. Charles production has been absorbed by the plants at Windsor and Kirksville, Missouri and Flora, Illinois. There is now a total of sixty shoe factories and 29 other principal manufacturing plants.

In addition to its five shoe factories in Chicago and one in St. Louis, Florsheim Shoe Company operates a sole cutting plant and a display plant in Chicago, and an upper fitting room in Danville, Illinois.

The tannery of Burk Brothers, acquisition of whose capital stock was mentioned in last year's report, has been rehabilitated, and has been in production since February.

The Company's new processing plant for rubber composition heeling and soling material at Bryan, Texas, on which construction began in 1953, is nearing completion. It is expected that the plant will begin operation sometime in March. The plant will contain 70,000 square feet of floor area and will employ about 200 workers. The production of this new plant will supplement the production of our rubber plant at Hannibal, Missouri and in addition will supply many of the newer items of rubber heeling and soling for which there is a growing demand.

Burk Bros. tannery building, Philadelphia.

Early in the year the Company's welt manufacturing unit located at Manchester, New Hampshire and the welt currying unit in Merrimack, New Hampshire were transferred to the sole cutting plant at Ste. Genevieve, Missouri. The tanning of flexible splits was transferred to the Manchester Tannery. All of the Merrimack properties were sold later in the year.

Research

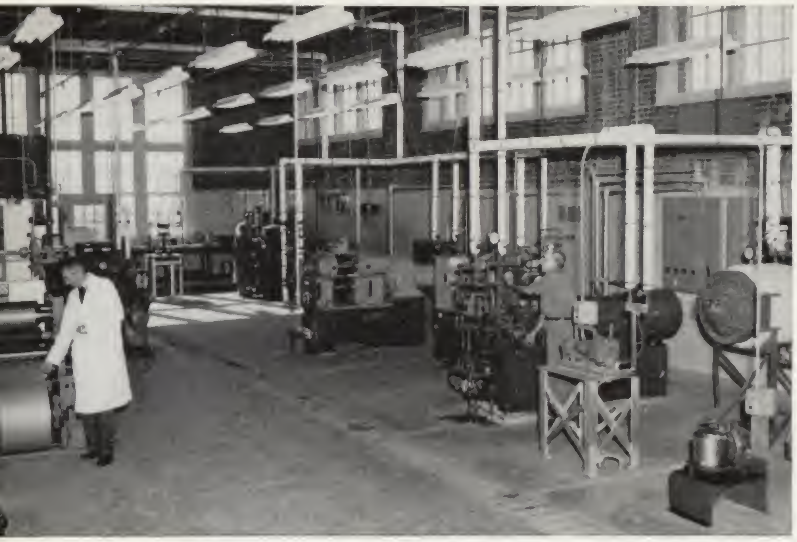
1953 was marked by the acceleration of the Company's research activities.

Aerial view of Bryan, Texas rubber plant nearing completion.

Product and Process Development Division

Among its activities this division investigated developments of interest to our Company in Western European countries. One specific result is the Company's agreement with Salamander A. G., the largest German shoe manufacturer, through which we are authorized to manufacture and distribute in the United States and Canada a group of leather fibre materials of superior quality.

A corporate subsidiary has been formed to manufacture these materials in St. Louis. Associated with the Company in this enterprise as sole distributor of the product and as manager and technical consultant is the George O. Jenkins Company, Bridgewater, Massachusetts, world's largest producer of leather fibreboard. While the improved materials made by this process will be used for some shoe parts, the distribution of these materials will be extended to other industries.



New plastics laboratory at Wood River, Illinois.

In addition to projects of European origin, many domestic developments are under investigation, and considerable progress is anticipated in this division during the coming year.

Market Research

The Market Research Division, established in 1952, has proved effective. Market analyses by state, county and town have enabled our sales personnel to direct their efforts toward the most productive areas. Several instances of sizeable sales gains can be traced to sales opportunities located initially by these analyses.

Surveys of our customers' opinions of our sales practices, merchandise, styling and advertising help keep Company policy in line with changing conditions. These surveys show what shoes are selling well early enough in the season to enable such adjustments in production as will provide more of the right shoes at the right time, thus improving deliveries, increasing sales and generating greater customer satisfaction.

A study of sales activities pointed up the need for a centralized sales training program. Study of methods used by other successful companies and examination of material available from several national sales associations enabled our Company to set up the sales training program in July of this year.

Future salesmen study Company products.

Training Programs

Sales Training

A more comprehensive sales training program for prospective salesmen was initiated in 1953 and the first group of young men completed their training in September just prior to our fall sales meetings.

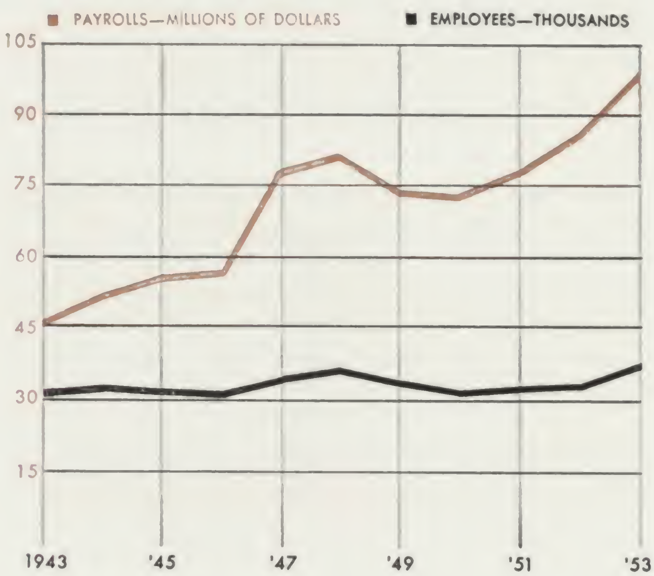
The six months' course affords sales trainees an opportunity to become thoroughly acquainted with the Company, its standards, its policies and its products in classroom sessions

and to undergo practical sales training on the road in the company of experienced salesmen.

The instructors of the sales training program were made up of sixty-eight executives and department managers who are specialists in their particular phases of the shoe business. One of the trainees who took the time to add the years of service of these executives and department managers remarked, "We have been exposed to 1,500 years of experience in the manufacture, sale and distribution of shoes."

This training program will aid new salesmen more rapidly to perfect their sales techniques. The beneficial results of this training program will be reflected in our sales figures in the years ahead.

PAYROLLS AND EMPLOYEES



Retail Sales Clinics

Retail sales clinics for store owners and sales personnel from stores operating under the Merchants Service and Shoenterprise Plans have been conducted in a number of cities during the past year.

These clinics help our independent retail customers and their staffs to function more effectively in this strongly competitive field. Techniques for fitting shoes, shoe knowledge, human relations in selling, service to the customer, building customer confidence and definition of personal and business goals are among the subjects covered by Company representatives who are well qualified in these fields.

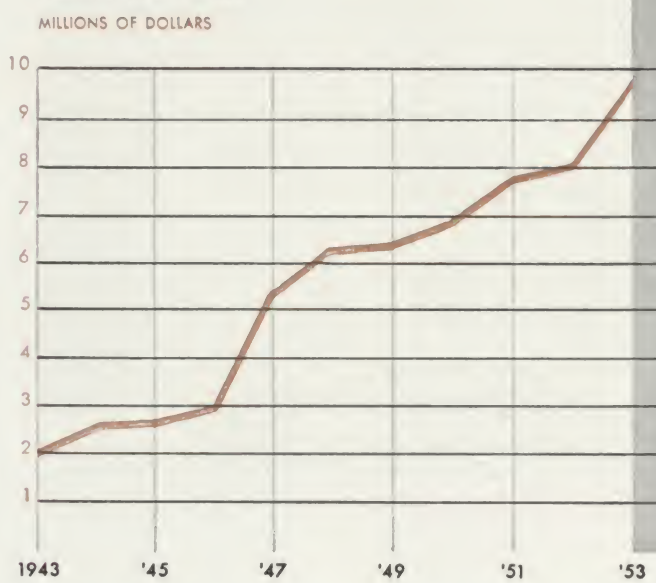
Because of the enthusiasm expressed by those attending these clinics, a new series is being prepared providing for return visits to areas already covered and an extension of the program to other sections of the country.

Plant Supervisory Training

Our Company is accelerating its training program for plant supervisory employees better to qualify them for their complex tasks. The present course is being offered one day each week for a period of ten weeks. Subjects covered include union contracts, community relations, grievance procedures, factory costs, styling, pattern cutting and others.

Increased awareness of the importance of

EMPLOYEES BENEFITS



good employee and community relations and of competitive problems on the part of plant supervisors will lead to lower costs and the maintenance of uniform quality.

Our People

The fine relations with employees which the Company has long enjoyed continued through 1953.

Total wages paid to our 38,000 men and women were the highest in the history of our Company. Wage rates averaged approximately 4% higher than in 1952. The principal employee contracts completed late in the year provide for changes in rates in line with changes

in the cost-of-living index at semi-annual periods during the next two years. The contracts embody a new hospital and surgical benefit plan paid for by the Company. The accident and health insurance plan was modified to provide for increased benefits. The cost of the modified plan, formerly shared by the employees, is now borne entirely by the Company.

Paid vacation benefits were increased to three weeks for employees who have been in continuous employment for fifteen years.

The Company-sponsored recreational programs continue to grow and are participated in enthusiastically by a large majority of our employees. These activities have been extended to sixty-four operating units directly affecting

Joe Heard, superintendent of Salem, Missouri shoe factory, presents a check to Dessie Dunakin for her suggested method improvement.

31,000 employees and their families. The programs provide a wide variety of entertainment and recreational activities.

Officers of the recreational unit at the Malvern cotton mill invited a number of Company executives to take part in a celebration early in October commemorating the twenty-fifth anniversary of the opening of the cotton mill. Included in the day's events were a picnic for the employees and their families and a dinner sponsored by the Malvern Chamber of Commerce at which employees with twenty or more years of service were honored.

The year again confirmed that our plants are a safe place to work. Our accident rate is well below the average of the industry.

Our Plant Communities

The Company's activities in community affairs were maintained during the year.

Teachers from public and parochial schools visited our factories and supply plants on Business-Education Days sponsored by Chambers of Commerce in many of our plant cities. These days give us an opportunity to explain the operation of our Company to those men and women who prepare our youth for their positions in the business world. As a result of these programs we are confident that both teachers and students have a better appreciation of the free enterprise system.

Last spring we invited students from schools and colleges to participate in Career Days. On these occasions we discussed opportunities offered by the Company to young people with energy and ambition. In some instances, students visited departments and branches of the Company to learn more about certain aspects of our operation in which they had expressed special interest.

It is our belief that our participation in business education in the school system will provide better-prepared young men and women for tomorrow's jobs at both production and management levels.

Company representatives spoke at service clubs and civic organizations in plant cities and in many of the major retail areas of the country. In addition, we exhibited displays from our shoe museum and samples of our shoes at county fairs, industrial shows and in retail shoe stores.

Management teams from nearly every European country outside the Iron Curtain visited our general offices in 1953. These groups were sponsored by the Federal Government and were in this country for the purpose of studying management and manufacturing methods. Management, labor and education were represented in each group. We took advantage of this opportunity in the hope that these people would return to their countries with better understanding of our business methods and our policies.

We believe that our policy of guarding, developing and improving our relations with our employees and our neighbors is essential in maintaining goodwill and ensuring a successful operation in our plant communities.

3 POINT PROGRAM *for successful selling*

Television and Radio

TOM CORBETT "SPACE CADET"
for Red Goose Shoes

"HOWDY DOODY"
for Poll Parrot Shoes

Outstanding Space and Puppet TV shows, plus radio, have provided powerful programs to bring our children's brands before the eyes and ears of young America. Our sales divisions have been using both television and radio—so that week in and week out children and parents are invited to visit our dealers.

Newspapers and Comics

Newspapers have always provided the final identification between dealers and nationally advertised shoes.

Every year, thousands of pages of International's brands are displayed over our dealers' signatures in daily newspapers throughout the country. Our sales divisions also feature dramatic advertising in Sunday comic sections and in colorful Sunday magazine supplements.

National Magazines

Magazines are designed for home reading.

And the home is the most logical place for us to reach present and potential customers. That's why leading national publications are used to carry our advertising messages.

In addition, the Company has not failed to include other proven sales-producing media such as Outdoor Advertising, Dealer Displays and Direct Mail. These, too, are used to round out a completely integrated advertising program designed to do an effective job at all levels.

OUR CUSTOMERS

Strong retail merchants—30,000 of them today—are the lifeblood of our business. They spread through all 48 states and into Alaska, Hawaii, Puerto Rico, the Canal Zone and a number of foreign countries. Together they form 30,000 reasons why our Company still holds to its historic policy and business philosophy for building and keeping strong independent retailers as the lifeblood of the world's largest shoe manufacturer.

From its inception International Shoe Company has put service to its independent retail customers foremost along with quality of its product.

No Program for Establishing its Own Retail Outlets

Our Company, unlike many others in the field, has never embarked on a program of establishing its own retail outlets. In some instances it has been—and probably will continue to be—necessary to acquire a store in order to protect and retain long existing outlets of the Company's established brands.

When the Florsheim Shoe Company was acquired its retail outlets in metropolitan centers were, of course, included. These stores are located in towns of 100,000 or over and were originally established in localities where Florsheim did not enjoy proper representation. In no case did they, nor do we, contemplate the establishment of retail stores in competition with our recognized retail outlets.

Florsheim was not purchased for the purpose of expanding into the retail shoe field—rather it presented an opportunity for our Company to acquire the most successful top-grade men's shoe business in the country with a brand which is rated "best known" by independent retailers everywhere.

Shoenterprise

Shoenterprise Corporation was organized by International Shoe Company in 1950 to aid in setting up independently owned and operated retail outlets.

Shoenterprise came into being to stem a threat against the independent retailer. That threat was the higher capital needed by a young man to open or to purchase an independent store of his own. The Shoenterprise plan financially aids the man of vision, experience and energy, who lacks capital, to get into business for himself. He retires his loan to become a completely independent shoe store owner, with no strings attached.

Some of the 300 or more merchants so aided in less than three years have already returned their borrowed capital and are completely independent. Many more are well along that road.

Shoenterprise helps a prospective shoe merchant in many ways in addition to financing. It helps him plan his store, his location, his stock, his personnel, his advertising, his merchandising . . . in fact, almost anything pertinent to opening and running a successful independent shoe store.

In deference to existing customers, the Shoenterprise plan is *not* intended for areas where International's various brands already are adequately and properly represented to the public.

Merchants Service Department

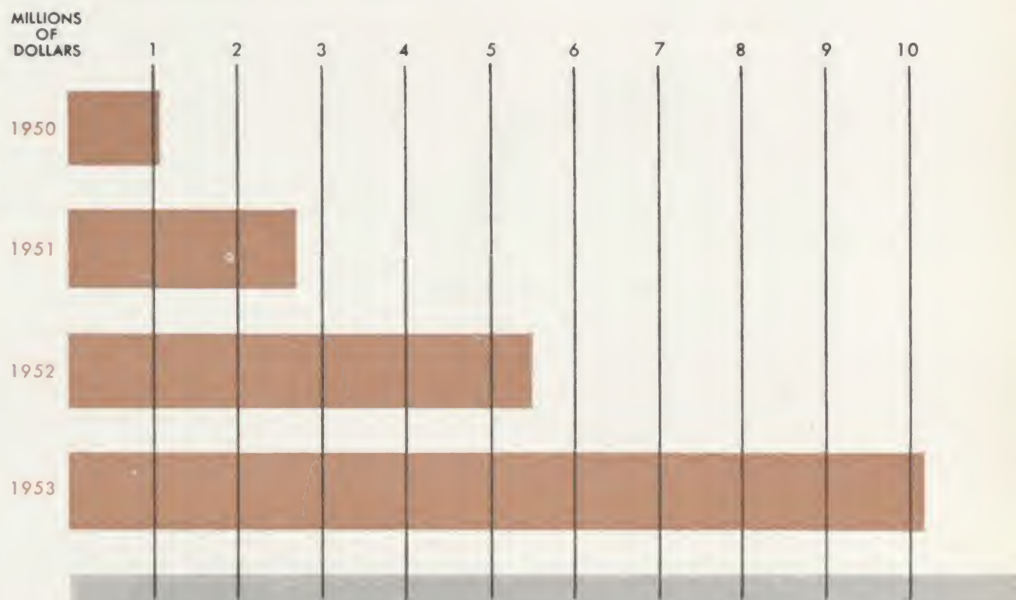
For more than twenty years the Merchants Service Department has operated as a retail consulting division of International Shoe Company. It exists to help the independent retailer plan and develop a profitable business year after year.

Stock control, perpetual inventory and simplified accounting plans are provided without charge. Audits and analyses help the growing merchant.

Merchants Service is staffed by thoroughly experienced retail shoe men. They have been trained to aid retailers in any phase of the business. As consultants they are available at all times at no cost.

Going far beyond the usual dealer help of most manufacturers, Merchants Service assists in checking a proposed location and advising on terms of the lease. Merchants Service field men lend a hand with advertising, displays and publicity, and prepare merchandise and advertising budgets.

Merchants Service has helped many hundreds of independent retail merchants to enjoy a greater share of success than would otherwise have been possible.



Shipments to Shoenterprise Stores

Stockholders	Holders	%	Shares	%
Women	5,105	39.1	1,169,084	34.4
Men	4,350	33.3	1,164,416	34.3
Joint Accounts	2,366	18.1	160,459	4.7
Fiduciaries	813	6.2	497,223	14.6
Investment Trusts	26	.2	85,547	2.5
Companies	68	.5	79,749	2.3
Insurance Companies	7	.1	20,980	.6
Churches—Hospitals—Universities—Charities	110	.9	68,411	2.0
Brokers	213	1.6	154,131	4.6
Total	13,058		3,400,000	

Shares	1—25	26—50	51—100	101—200	Over 200
Holders	5,059 38.8%	2,809 21.5%	2,603 19.9%	984 7.5%	1,603 12.3%

The number of individuals and institutions owning shares in the International Shoe Company has grown steadily during the life of the Company. During 1953, 300 new names were added to our list of stockholders, which totalled over 13,000 at year's end.

Approximately 39% of our stockholders each own 25 shares or less. Only 20% own more than 100 shares each. No one person or organization owns as much as 3%.

It is the policy of our management to keep stockholders and the public fully informed on the activities and progress of the Company and for this reason management welcomes letters from stockholders and others who desire additional information.

BYRON A. GRAY *Honored*

BYRON A. GRAY, chairman of the board of the International Shoe Company, was one of the winners of the seventh annual Horatio Alger awards, given by the American Schools and Colleges Association in recognition of attainment of national eminence from humble beginnings. Mr. Gray, who received the award on April 8th, began his company career with Roberts, Johnson & Rand Shoe Company in 1909, having earlier left school at 13 to start work as an office boy.

When informed of this award, Mr. Gray remarked: "To be one of those selected for the Horatio Alger award is a distinct honor, but I am deeply conscious of the fact that I am only a representative of hundreds—one might say thousands—of other men and women who started from humble beginnings without money, and without influence, and by reason of the opportunities which our American way of life affords, have been able to achieve a large measure of success.

"I hope that these awards may help to stimulate the realization by our young men and women that opportunity for individual achievement in this great land of ours is greater today than ever before."

Directors of International Shoe Company

CARL E. BRUECKMANN
Secretary and
Assistant Treasurer
45 Years of Service

HAROLD M. FLORSHEIM
President
Florsheim Shoe Company
35 Years of Service

IRVING S. FLORSHEIM
Chairman
Florsheim Shoe Company
40 Years of Service

CLEMENCE L. HEIN
General Manager
Vitality Sales Division
24 Years of Service

PAUL B. JAMISON
Retired,
Former Vice-President
49 Years of Service

ANDREW W. JOHNSON
Vice-President and
Treasurer
46 Years of Service

J. LEE JOHNSON
Vice-President
Industrial and Public Relations
26 Years of Service

LEE C. McKINLEY
General Manager
Upper Stock and
Miscellaneous Procurement
32 Years of Service

ROBERT O. MONNIG
Vice-President and
Comptroller
39 Years of Service

HAROLD F. OYAAS
General Manager
Friedman-Shelby Sales Division
26 Years of Service

OLIVER F. PETERS
Vice-President
42 Years of Service

JAMES T. PETTUS
Retired,
Former Vice-Chairman
of the Board
56 Years of Service

HENRY H. RAND
Vice-President
Shoe Manufacturing
and Merchandising
24 Years of Service

REZIN H. RICHARDS
Vice-President
General Manager
Supply and Service Plants
30 Years of Service

RICHARD O. RUMER
General Counsel
24 Years of Service

ALBERT V. WHEELER
General Manager Women's
Specialty Sales Divisions
32 Years of Service

BYRON A. GRAY
Chairman of the Board
44 Years of Service

EDGAR E. RAND
President
26 Years of Service

Years of service include service with companies which subsequently became a part of International Shoe.

World's largest manufacturer of men's, women's and children's shoes

PRINCIPAL ADVERTISED BRANDS

Roberts, Johnson & Rand Sales Division

The RAND Shoe

Poll-Parrot SHOES For Boys and Girls Reg. U. S. PAT. OFF.

THE Trim Tred SHOE

RAND Juniors

STAR BRAND SHOES

Peters Sales Division

City Club JRS.

Weather Bird Shoes

Peters Diamond Brand Shoes TRADE MARK REG. US. PAT. OFF.

Velvet step SHOES

City Club SHOES for MEN

Friedman-Shelby Sales Division

Friedman-Shelby

RED GOOSE SHOES

The John C. Roberts Junior LEGION

Grace Walker

The John C. Roberts Shoe

Sundial Sales Division

Sundial Shoes FOR ALL THE FAMILY

Specialty Divisions

Accent! SHOES

Dorothy Dodd SHOES

HY-TEST INTERNATIONAL SHOE CO. SAFETY SHOES

CONFORMAL SHOES FOR MEN AND WOMEN

WINTHROP SHOES

Queen Quality SHOES

Vitality SHOES

WINTHROP JRS. for boys

Florsheim Shoe Company

The FLORSHEIM Shoe